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Market Development Reports

Indonesian Fresh Fruit Imports

1999

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Report Highlights: U.S. fresh fruit exports stand to gain the most from the ongoing recovery in the Indonesian market, since this category annually accounted for 40-50 percent of U.S. exports of high-valued agricultural products during 1993-97. During this period, U.S. fresh fruit exports to Indonesia increased from \$16 million in 1993 to \$50 million in 1997, or a 210 percent increase over the five year period. By 1997, Indonesia had become the 7th largest export market in the world for U.S. fresh fruit. Indications are that this growth trend will repeat itself over the five-year time period from 1998 to 2002. Thus, U.S. fresh fruit exports should once again exceed \$50 million in 2002. With an aggressive marketing campaign - including product branding - plus technical or financial support targeted towards modernizing Indonesia's Cold Chain infrastructure, it is feasible that Indonesia could develop into a \$100 million market for U.S. fresh fruit in the next decade.

Includes PSD changes: No

Includes Trade Matrix: No

Unscheduled Report

Jakarta ATO [ID2], ID

MARKET BRIEF: INDONESIAN FRESH FRUIT IMPORTS STRONG RECOVERY BOOST OPPORTUNITIES FOR U.S. SUPPLIERS

MARKET OVERVIEW

Indonesia is an archipelago nation of over 205 million people, making it the world's fourth most populous nation. From 1970 to 1996, Indonesia's annual Gross Domestic Product averaged 7 percent, resulting in a tenfold increase in per capita GDP. In 1996, total U.S. exports to Indonesia increased to over \$3.4 billion, including nearly \$1.0 billion in agricultural and forestry products. The total for agricultural products represented more than a 100 percent increase over the 1994 total of \$420 million. This rapid expansion in overall trade with the United States led the U.S. Department of Commerce to designate Indonesia as a 'Big Emerging Market' and the Foreign Agricultural Service to open an Agricultural Trade Office in Jakarta.

Beginning in late 1997, however, Indonesia experienced a dramatic collapse in its economy, culminating in an GDP contraction of over 13 percent in 1998. This sharp economic contraction - exacerbated by a severe El Nino drought in 1997/98 and ongoing political uncertainties - resulted in Indonesia moving from 'Big Emerging Market' status to one of the world's largest recipients of food and humanitarian assistance. Since the onset of the economic crisis, U.S. agricultural and forestry exports dropped to \$811 million in 1997 and \$489 million in 1998.

In 1999, the Indonesian economy and, in turn U.S. agricultural exports, have begun a modest recovery. Close coordination with the international financial institutions have led to dramatic improvement in all major macroeconomic indicators, including a sharply stronger and stable rupiah. This has helped boost total U.S. agricultural exports to reach a projected \$550 million in 1999. This includes a dramatic turn around in the exports of U.S. consumer-oriented food products, which are expected to reach \$60 million - or more than a 100 percent year-on-year increase.

For the extended outlook, the international financial institutions have generally forecast a 3-5 year recovery period for Indonesia. The recovery process has been boosted by the relatively peaceful democratic election process that culminated in the naming of a new president in October, making Indonesia the world's third largest democracy. Assuming a corresponding growth in trade throughout this period, U.S. agricultural exports should again approach \$1 billion by 2002, with exports of consumer-oriented products once again approaching \$120 million.

U.S. fresh fruit exports stand to gain the most from the recovery in the Indonesian market, since this category annually accounted for 40-50 percent of U.S. exports of high-valued agricultural products during 1993-97. During this period, U.S. fresh fruit exports to Indonesia increased from \$16 million in 1993 to \$50 million in 1997, or a 212 percent increase over the five year period. By 1997, Indonesia had become the 7th largest export market in the world for U.S. fresh fruit. Indications are that this growth trend will repeat itself over the five-year time period from 1998 to 2002. Thus, U.S. fresh fruit exports should once again exceed \$50 million in 2002. With an aggressive marketing campaign - including product branding - plus technical or financial support targeted towards modernizing Indonesia's Cold Chain infrastructure, it is feasible that Indonesia could develop into a \$100 million market for U.S. fresh fruit in the next decade.

MARKET STRUCTURE

Retail Sector:

The traditional sector dominates the retail food business in Indonesia. In 1997, an A.C. Nielsen study indicates that there were 2,052,635 retail food outlets in Indonesia. Of these outlets, 579 were supermarkets, 1,535 were mini-markets, 58,791 were large provision shops, 362,001 were small provision shops, and 1,509,498 were street stalls known locally as *warungs*. It is currently estimated by trade sources that 20 percent of retail food sales in Jakarta take place in supermarkets and other modern retail outlets. Nationwide, this figure is only 5 percent. Fresh fruit are sold throughout the retail sector, with imported fruit - especially apples - sold along side the domestic tropical fruit.

The economic crisis has had a major impact on the retail food sector in Indonesia. Surprisingly, the crisis increased sales in value terms of most Indonesian food retailers in 1998, with sales rising 10 - 45 percent. This was due largely to price increases on previously-produced stocks. However, sales for many retailers dropped 10 - 25 percent in volume terms as demand weakened. The prospects have improved considerably, however, in 1999 with a more stabilized political and economic situation. The trade remains cautiously optimistic and generally project that sales will reach pre-crisis levels by 2001/2002.

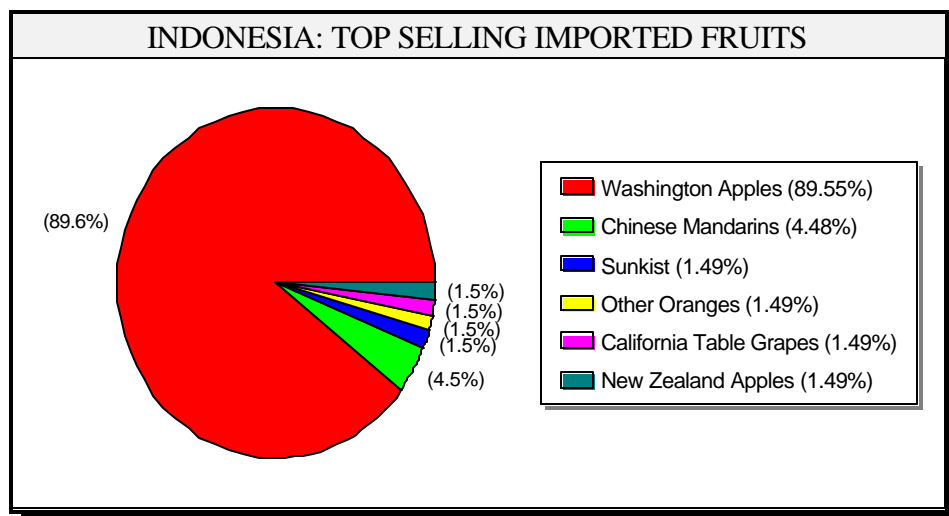
It is also important to note that the impact of the economic crisis was not spread equally over the archipelago. The island of Java, which is the center for industry and manufacturing, was the hardest hit. However, other major islands with export-based industries - including oil & gas, mining, and agricultural commodities such as palm oil, coffee, cocoa, spices, and rubber - greatly benefitted from the devalued currency. One retailers group, which has strong presence in east Indonesia,

reported sharply stronger sales over the crisis period. The popular tourist island of Bali is another good example where consumption of imported fresh fruit has expanded, and now includes lesser known fruits such as California kiwi, summer fruits and strawberries. These are often air freighted from Singapore directly.

Fresh Fruit Import Sector:

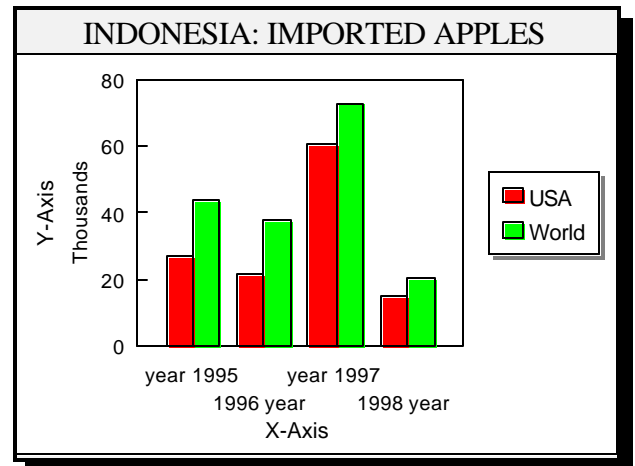
The word "crisis" in Chinese consists of two characters placed together. The first character means "danger" while the second character means "opportunity". This Chinese concept of "crisis" can be applied to the current situation in Indonesia. No doubt Indonesia, since the onset of the regional economic crisis in mid-1997, has experience very difficult times, both economically and politically. However, during this period, many new

opportunities have also arisen. Included are new opportunities for imports of fresh fruit that have led to a strong recovery in imports of U.S. fresh fruit.



A significant factor was the lowering of applied tariffs on all imported food products to a maximum of 5 percent under an agreement between the Government of Indonesia and the IMF as part of a Letter of Understanding signed in the early part of 1998. This same agreement led to the lifting of restrictions on foreign investment in the retail and distribution sector. As a result, two hypermarket franchises - Continent and Carrefour - opened their first stores in Jakarta during the in middle of the economic crisis. Sales are reportedly very strong with plans for more stores underway. Expanded and more modern retail stores will provide better infrastructure to support the imported fresh fruit business. Over the past 10 years, new supermarkets have contributed positively to better distribution and consumption of fresh fruit from the United States, namely apples, pears, grapes and summer fruits.

Local fruit importers have also shown strong loyalty to U.S. fresh fruits due to the decision of almost every major fruit co-operator to maintain their strong promotion and marketing programs throughout 1998. This commitment came at a time when retail prices for apples and other fruit averaged more than Rp 24,000/kg. By mid-1999, prices averaged less than Rp 9,000/kg.



All of these factors helped lead to a 400 percent increase of U.S. exports of fresh fruit in 1999 on a year-to-year basis (see trade data in Appendix I.)

CONSUMER TRENDS AND PATTERNS

- Indonesia's population of over 205 million is relatively young with more than half the population below the age of 25. Nearly 60 percent of the population lives on Java and accounts for 60-65 percent of the sales of fast moving consumer goods. Java also has the best infrastructure although urban areas in Sumatera, Bali and Sulawesi are quickly developing.
- Average household size declined from 4.9 persons in 1980 to 4.5 in 1990. This average size is reflected in the consumers' purchasing behavior for fresh fruits. Most Indonesian consumers prefer medium to smaller size fruit so that one kilo consists of 6-7 pieces, which is sufficient for the whole family.
- Children are a very important factor in the family's buying decisions.
- The Indonesian consumer is very price conscious and susceptible to economic swings, with purchasing fluctuations occurring more in the middle and lower level income groups. Although the Indonesian consumer is traditionally loyal to brands, there are signs that brand loyalty is diminishing while "brand image" has become more important.
- Consumer preference for local fruit increased during the economic crisis, mainly as a result of price fluctuations on imported fruit. In 1995, consumer preference for papaya was 10 percent but increased to 20 percent in 1998 while local watermelon increased from 5 percent to 10 percent. By contrast, imported apples declined from 26

percent to 14 percent; table grapes from 5 percent to 3 percent; and pears from 3 percent to 1 percent.

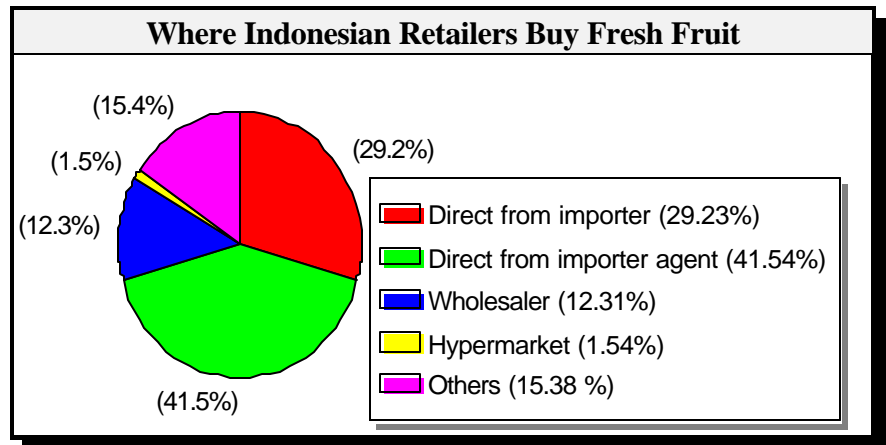
- It is currently estimated that the upper and middle income groups combine to represent 15 percent of the population, or equal to about 30 million people. This is about 40 percent of the pre-crisis level of 78 million. Most of these people live in the major urban areas, including cities on Java (Jakarta, 11 million people; Surabaya, 3 million; Bandung, 1 million; and Semarang, 1 million); Sumatera (Medan, 2 million; and Palembang, 1 million); Sulawesi (Ujung Pandang, 1.5 million; and Manado, 1 million); and the island of Bali (3 million.)
- The peak business periods are during the holiday seasons when consumer spending increases. The most important holiday seasons are Ramadan (the month-long Muslim fasting period in which food consumption goes up significantly), Lebaran or Idul Fitri (Muslim celebration of the end of the fasting), Chinese New Year, and Christmas. Indonesians consume significantly greater amounts of imported food products - including fresh fruits - during this period which will run from November to February for the next several years.

INDONESIA: CONSUMER SURVEY FOR IMPORTED FRESH FRUITS			
Consumer Purchasing Criteria		Consumer Preference on Retail Outlet	
Family Preference	47%	Wet Market	57%
Taste	34%	Fruit Hawker	32%
Price	22%	Supermarket	30%
Nutrition/Health	19%	Fruit Store	19%
Habit/Convenience	13%		
Consumer Eating Pattern for Imported Fruits			
Breakfast	8%	Mid-afternoon Snack	25%
Mid-morning Snack	12%	Before Dinner Snack	20%
Lunch (at home)	37%	After Dinner Snack	17%
Lunch (outside home)	9%	Tea Time	7%

DISTRIBUTION CHANNELS FOR FRESH PRODUCE

Most fresh produce is distributed through the traditional marketing system. Local farmers have two alternatives for marketing their produce: 1) they can sell directly to local (usually rural) markets, or 2) they can sell to traders who bring the produce to urban areas. In every city there is a *pasar induk* (central wet market) where wholesalers bring their inventories to sell either to lower-level distributors or directly to retailers.

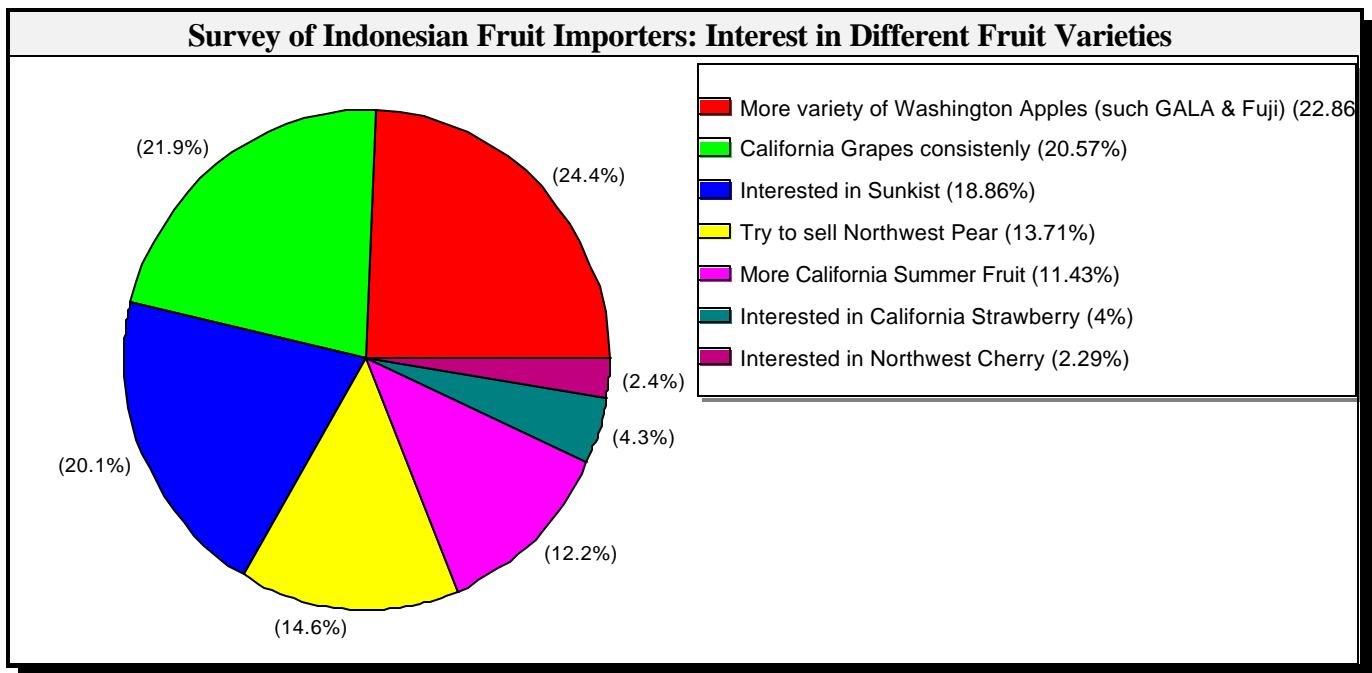
Local tropical fruit is distributed somewhat differently. Some is marketed through the same system as fresh produce, while some is marketed through special areas that sell fruit in street side stalls. However, the dramatic increase in the volume of imported fruit this past decade has created a new marketing structure, which are the street markets that specialize in fresh fruit. In Jakarta alone, there are at least seven major markets that specialize in imported and local fruits. Each street market consists of 8-15 vendors selling imported fruit along side local tropical fruit, all competitively priced. This development has had a significant impact on bringing fresh imported fruit - mainly applies - directly to the mass market and making it a part of everyday purchases along with mangoes, papaya and other local fruit.



Besides the normal retail markets, many fruit boutiques have been established in most major cities over the past five years. In Jakarta alone, there are at least 36 fruit boutiques operating exclusively as the high end outlet for imported fruits, juices and premium snacks such as dried fruits, ice cream and cakes.

Overall, there are several types of distribution chains :

- U.S. exporters selling directly to large national chains such as Hero and Makro.
- Indonesian agents collect orders from several wholesaler/retailers and import the fruit on their behalf.
- Indonesian importers import the fruit and sell them to regional distributors, who then resell the fruit to local wholesalers. The local wholesalers then distribute to local retailers such as supermarkets and street vendors.
- There also some Indonesian importers that act as importer, distributor and wholesaler at the same time. This structure tends to disrupt competition, especially in some smaller cities wholesalers create a monopoly - leaving the local retailers at their mercy. This distorts the market in terms of pricing and tends to limit the variety and quality of fruits offered.



CONSTRAINTS TO FURTHER EXPANSION OF U.S. FRUIT EXPORTS

Lack of Brand Awareness:

Strong brand strategy is very important in Indonesia. Cooperators such as *Sunkist* have enjoyed strong brand leadership in Indonesia for many decades. Throughout the country, *Sunkist* has become the generic term for any imported orange, regardless of country of origin. Competitor products with a strong brand loyalty include *Zestpri* for New Zealand Kiwifruit. New Zealand and France have both provided one umbrella brand for their apples, simply branded *New Zealand Apples* and *France Apples* respectively. Other brands such as *Outspan* from South Africa have also enjoyed significant growth in the recent years. Australia and Canada have a less recognized brand strategy in the Indonesian market. Consumers have difficulty recognizing *Tasmanian Apples* as originating from Australia. The same with Canadian apples, which are mostly branded as *BC Apples*.

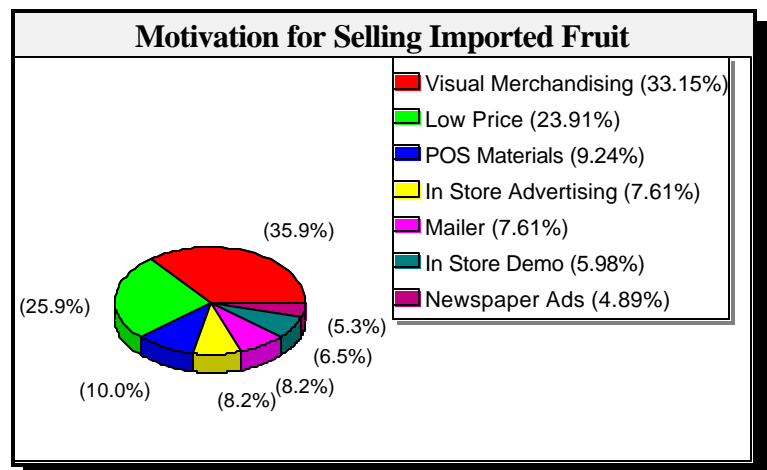
The lack of recognizable branding on some U.S. fruit remains a major constraint for expanded sales and market share. Inconsistency in stickering or labeling is the leading problem, including some with labels culturally insensitive towards Asian consumers in general or some that simply label their fruits with an unclear address. Given the Indonesian consumers overall impression of U.S. products as being of high quality and value, failure to clearly mentioned the word "grown in USA" or "produced in USA" only serves to lower sales of U.S. fresh fruit to the benefit of the competitors. It is clear that those growers with stronger brand leadership through labeling are able to both gain market share and command price premiums, with *Washington Apples* another good example.

Strong Competition:

Most third country competitors closely monitor the Indonesian market. Some have started an aggressive marketing campaign, including television advertisements and merchandising programs. Others compete through cheaper prices. China, for example, which used to be known in the Indonesian market for lower quality fruit, has greatly improved its quality and packaging over the past three years. Brazil and Argentina have gained by establishing a strong network with importers in Hong Kong and Singapore. Chile has re-focused on the Indonesian market while regional competitors such as Thailand and Australia have expanded their exports of tropical fruit such as longan, durian, and mango.

Poor Infrastructure:

Importers and Wholesalers: There are less than 35 registered fruit importers for all of Indonesia. Many of these also act as wholesalers and distributors in cities and provinces outside of Jakarta. Imported fruit, especially apples, can be found throughout the archipelago and into many remote areas. Most importers have established their own refrigerated warehousing facility, although many don't adhere to best industry practices common in the United States. Specifically, problems include failure to maintain proper temperatures, lack of humidity control, absence of ethylene oxidizers to prevent premature ripening, lack of understanding of storage guidelines, failure to maintain proper air circulation/velocity in chiller rooms, lack of adherence to industry standards on proper time limits for perishable fruit left in storage, little attempt to optimize stacking parameters, and an almost total absence of automated cold storage inventory control technologies.



Fruit handling still relies heavily on manual labor. Forklifts are rarely used and only a small number of importers utilize pallets. Although Indonesia is an archipelago nation, trucking is the preferred means of transportation to most cities on the major islands of Sumatera, Java, Bali, and Lombok. Refrigerated trucks are limited, meaning much fruit is transported in unrefrigerated trucks. Inter-island transport to East Indonesia is by ship, although rarely are their cold storage facilities either on board or in the destination ports. Apples, pears, and citrus are thus the main fruit transported outside of Jakarta and Surabaya given their relative durability. Lack of a more modern cold chain infrastructure is a major constraint to expanded trade in these fruits while it almost totally prohibits trade outside of Jakarta and Surabaya in less durable fruit such as grapes, stone fruits, cherries and strawberries.

Retailers: A survey of local retailers shows that there are less than 300 modern supermarkets in Indonesia. Not all of those supermarkets have proper cold storage facilities, meaning a complete cold chain from the time the fruit is received, stored, and displayed for sale. Most only utilize refrigerated display equipment. However, inconsistent maintenance procedures means many of these refrigerated display counters do not maintain proper temperatures. All these factors have contributed to the shorter life for most fruit and contribute to less profitability for the retailer.

RECOMMENDED STRATEGIES TO OVERCOME CONSTRAINTS

The strategic approach for increased brand awareness requires a broad spectrum of activities:

- All consumer activities should strongly emphasize the USA origin, encouraging various cooperator brand identity and logo, particularly during the peak period of November to March (Christmas, New Year, Chinese New Year and Moslem New Year).
- Trade activities to encourage retailers to identify USA fruits at point-of-purchase by use of logo stickers or other P.O.S. materials.
- Retailers will be encouraged to buy and promote USA Fruits through strong visual merchandising and in-store promotions.
- Free educational training to retailers to increase their merchandising techniques.

The strategic approach towards third country competition parallels the efforts to increase brand awareness of USA fruits :

- Educate growers and packers in the United States on the specific market needs and conditions in Indonesia.
- Build trade loyalty through selling support, information exchanges, and educational materials.
- Emphasize branding in all consumer trade activities.
- Build consumer brand preference through mass media.
- Create a new program of sales promotions and public relations.
- Develop a strong year-round promotion program.
- Implement Category Management in the produce section
- Use small groups of highly mobile merchandisers to cover supermarkets and fruit retailers intensively for year round.
- Use area supervisors to coordinate and audit merchandising activities.
- Expand the merchandising programs and implement a more aggressive merchandising program, including areas in South Sumatera, Java, Madura and Bali. Develop new trade contacts in markets such as Kalimantan, Lombok and Sulawesi

The strategic approach towards constraints due to poor cold chain infrastructure should include coordination among the appropriate cooperators, the Foreign Agricultural Service, the Agricultural Trade Office in Jakarta, and selected non-governmental organizations in pursuing the following:

- Inclusion of Indonesia in the ongoing USDA Emerging Market Cold Chain project.
- Creation of an Indonesian Cold Chain Association.
- USDA-sponsored technical training seminars targeting those groups recommended by cooperators and ATO Jakarta.
- Identification of companies interested in the USDA Facilities Credit Guarantee Program.
- Identification of funding for infra structural development from any forthcoming monetization of food aid for Indonesia.
- Support for continuation of a U.S. NGO's efforts to develop basic cold chain facilities in selected port cities throughout the archipelago.

CONCLUSIONS:

Despite the economic crisis and political upheaval of the past two years, Indonesia remains a potentially strong market for U.S. fresh fruit for the following reasons:

- A newly-elected democratic government should help boost economic recovery, and in turn, U.S. food and agricultural exports.
- U.S. exports of fresh fruit could once again approach \$50 million by 2002. Exports last reached this level in 1997, making Indonesia the 7th largest export market in the world for U.S. fresh fruit.
- The strong recovery experienced by the retail sector this year should continue into the foreseeable future, due in part to liberalization of the distribution and retail sector.
- Per capita consumption of fruit in Indonesia reached 35 kg prior to the economic crisis. This figure represents 3 percent of the total volume of food intake composition. This compares with rice, which represents 64 percent, meaning there remains substantial potential for increased per capita consumption of fresh fruit - especially among the 50 percent of the population below 25 years old.
- Indonesia is not self sufficient in fruit production. Of the 35 kg per capita of fruit consumed, Indonesia produces only 27.6 kg on a per capita basis, well short of the 35 kg per capita consumption rate.
- U.S. fruit has a seasonal advantage compared with the main competition from the southern hemisphere since popular fruit such as apples, stone fruits, table grapes, and navel oranges reach their marketing peak from October to March, which coincides with the major holiday season in Indonesia of Christmas, New Year, Chinese New Year and Moslem New Year.
- Through the success of past marketing programs, the main U.S. fruits exported to Indonesia enjoy strong brand awareness and popularity among the trade and consumers. Two main reasons based on the USA Fruit Trade Survey 1999 are high quality (23.7 percent) and high brand awareness (22.9 percent).

POST CONTACT AND FURTHER INFORMATION

The U.S. Agricultural Trade Office in Jakarta maintains up-to-date information covering food and agricultural import opportunities in Indonesia and would be pleased to assist in facilitating U.S. exporters and entry to the Indonesia market. Question or comments regarding this report should be directed to the U.S. ATO in Jakarta at either of the following addresses:

U.S. COMMERCIAL CENTER
Wisma Metropolitan II, 3rd Floor
Jl. Jend. Sudirman Kav. 29-31
Jakarta, Indonesia 12920
Tel: +62-21-526-2850
Fax: +62-21-571-1251
e.mail: atojkt@cbn.net.id
Homepage: <http://www.usembassyjakarta.org/fas>

Agricultural Trade Office
American Embassy-Jakarta
Box 1, Unit 8129
FPO AP 96520

Please contact our home page for more information on exporting U.S. food products to Indonesia, including *Exporter Guide: Indonesia*; *Food Processing Sector Report: Indonesia*; *The Retail Sector Report: Indonesia*; *Hotel and Restaurant Industry Bali*; *Market Brief: Indonesian Meat Processing Industry*; and *Market Brief- Indonesian Wine Import*. As of January 2000, the following reports are available: *The HRI Food Service Sector Report: Indonesia*; *Market Brief: Indonesian Bakery Industry*, and *Market Brief: Indonesian Beverage Industry*.

You may also contact the following address as the Cooperator for Washington Apple Commission, California Table Grape Commission and Oregon-Washington-California Pear Bureau to get more information regarding imported fruit in Indonesia.

PEKA CONSULT
Jl. Kemang Raya No. 1
Jakarta, Indonesia 12160
Tel: +62-21-721-1358
Fax: +62-21-721-1357
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For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service's Home Page: <http://www.fas.usda.gov>

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APPENDIX I

INDONESIA: FRESH FRUIT IMPORTS

INDONESIA: FRUIT IMPORTS 1995-1998									
Variety	Country of Origin	1995		1996		1997		1998	
		MT	\$1000	MT	\$1000	MT	\$1000	MT	\$1000
Stone Fruit	United States	136	272	118	221	216	226	41	38
	World	366	599	305	554	374	477	113	112
Grape	United States	2,192	4,324	3,938	8,608	3,289	4,271	1,8732	2,656
	World	6,326	10,246	8,971	15,458	9,286	10,183	3,234	3,364
Orange	United States	1,356	1,197	1,949	1,929	3,916	2,024	395	247
	World	15,318	8,967	14,964	8,747	13,164	6,343	6,218	2,662
Apples	United States	27,118	21,696	21,779	17,191	60,767	32,732	15,136	8,670
	World	44,158	32,487	37,639	288,814	72,682	42,009	20,515	11,655

INDONESIA: U.S. EXPORTS OF FRESH FRUIT	
Year	US\$1,000
1993	\$16,107
1994	\$25,102
1995	\$39,063
1996	\$43,766
1997	\$49,689 /1
1998	\$ 5,143
1999 (Jun-Sep)	\$12,158
/1 Highest export level since at least 1970	